

Message Text

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TO AMEMBASSY KINSHASA
INFO AMEMBASSY LONDON
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AMEMBASSY BRUSSELS
AMEMBASSY PARIS
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E.O. 11652: N/A

TAGS: EFIN

SUBJECT: IMPLEMENTATION OF THE LONDON AGREEMENT

1. PARAGRAPHS 3-6 BELOW DESCRIBE OUR LATEST INFORMATION ON THE STATUS OF CITIBANK'S INTENTIONS FOR IMPLEMENTING THE LONDON AGREEMENT. AS EMBASSY AWARE, BOTH USG AND IMF HAD EXPECTED LONDON AGREEMENT WOULD RESULT IN FIVE YEAR TERM LOAN. WE BELIEVE IN THE CONCEPT OF "ROUGHLY COMPARABLE" TREATMENT AMONG PRIVATE AND OFFICIAL CREDITORS. WHILE WE

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ARE PREPARED TO INTERPRET THIS PRINCIPLE RATHER BROADLY, WE HAVE NOT YET MADE A JUDGMENT ON PRECISELY WHAT TERMS FROM THE LONDON AGREEMENT WOULD CONSTITUTE ROUGH COMPARABILITY. THERE IS SOME DOUBT, HOWEVER, WHETHER CITIBANK'S PROPOSAL AS THEY HAVE DESCRIBED IT TO US WOULD FULFILL THIS CONDITION. IN ANY CASE, WE ARE CONCERNED ABOUT THE VIABILITY OF THE 180 DAY-REVOLVING CREDIT (AS OPPOSED TO A REGULAR 5-YEAR LOAN)

GIVEN ZAIRE'S FINANCIAL CONSTRAINTS OVER THE NEXT YEAR OR SO, AND ARE WARY THAT ZAIRE MAY NOT BE ABLE TO SERVICE FULLY THE PRIVATE BANK CREDITS AS THEY FALL DUE.

2. CITIBANK HAS INDICATED THAT THEIR PLANS HAVE BEEN DISCUSSED WITH AND HAVE THE BLESSING OF CENTRAL BANK GOVERNOR SAMBWA. WE UNDERSTAND FROM CITIBANK THAT SAMBWA AND FRIEDMAN WILL DISCUSS THIS MATTER FURTHER IN BRUSSELS ON JUNE 8. WE REQUEST THAT YOU SEEK DEBRIEFING FROM SAMBWA ON HIS RETURN, DRAWING AS NECESSARY ON THE INFORMATION CONTAINED HERE. WE ARE PARTICULARLY INTERESTED IN SAMBWA'S VIEWS ON THE 180 DAY REVOLVING NATURE OF THE LINE OF CREDIT, AND WHETHER HE BELIEVES ZAIRE HAS THE SHORT AND MEDIUM TERM CAPACITY TO SERVICE CREDIT.

3. THE FOLLOWING INFORMATION ON THE STATUS OF THE LONDON AGREEMENT HAS BEEN PROVIDED BY CITIBANK:

-- THE LONDON AGREEMENT BANKS CURRENTLY HAVE 367 MILLION DOLS EXPOSURE IN ZAIRE. TOTAL PRIVATE BANK EXPOSURE IN ZAIRE IS ESTIMATED TO BE IN THE RANGE OF 375-500 MILLION DOLS. THESE DATA EXCLUDE DEBT GUARANTEED BY CREDITOR GOVERNMENTS.

-- ZAIRE IS NOW CURRENT ON ITS INTEREST PAYMENTS TO THE LONDON AGREEMENT BANKS.

-- PRINCIPAL ARREARAGES (THE OLDEST DATING BACK TO 1975) TOTALED 54 MILLION DOLS AT THE TIME OF THE LONDON AGREEMENT LIMITED OFFICIAL USE

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MENT. AN ADDITIONAL 44 MILLION DOLS PRINCIPAL WILL FALL DUE BEFORE JUNE 30, 1977. (THUS ACCORDING TO THE TERMS OF THE LONDON AGREEMENT, ZAIRE IS OBLIGATED TO PAY 99 MILLION DOLS INTO THE BIS ACCOUNT PRIOR TO JUNE 30, 1977). 32 MILLION DOLS PRINCIPAL WILL FALL DUE BETWEEN JULY 1, 1977 AND DECEMBER 31, 1977. IT IS ESTIMATED THAT ZAIRE HAS DEPOSITED 24 MILLION DOLS IN THE ACCOUNT.

-- CITIBANK'S INTENTION IS TO BEGIN DISCUSSIONS SHORTLY WITH OTHER AGENT BANKS ON A NEW CREDIT WHICH THEY ENVISION -- SUBJECT TO NEGOTIATION WITH THE OTHER BANKS -- AS HAVING THE FOLLOWING FEATURES:

(A) THE BANKS WOULD AGREE TO A 5 YEAR COMMITMENT BASED ON 180 DAY REVOLVING LETTERS OF CREDIT,

(B) THE LETTERS OF CREDIT WOULD TOTAL 250 MILLION DOLS. THEY MAY BE DISBURSED QUARTERLY DURING THE FIRST TWELVE MONTHS, BEGINNING 7/1/77, IN WHICH CASE THE FULL 250 MIL-

LION WOULD NOT BE AVAILABLE UNTIL MID-1978.

(C) THE LETTERS OF CREDIT WOULD BE USED BY ZAIRE FOR THE IMPORTATION OF INDUSTRIAL OR AGRICULTURAL PRODUCTS, RAW MATERIALS, SPARES ETC. OF THE TYPE REQUIRED FOR "PUMP PRIMING" THE ECONOMY. THE CENTRAL BANK (GOVERNOR SAMBWA) WOULD LICENSE THESE IMPORTS.

(D) ASSUMING ALL WENT WELL, THE GOZ WOULD CONTINUE TO HAVE THE FULL 250 MILLION DOLS LINE OF CREDIT UNTIL THE END OF THE 5 YEAR PERIOD.

(E) CONTINUING AVAILABILITY OF CREDIT WOULD BE CONDITIONED ON GOZ ADHERENCE TO TERMS OF THE LOAN AGREEMENT E.G. PROMPT SERVICE OF THESE AND ALL OTHER LONDON CLUB CREDITS, AND SATISFACTORY PERFORMANCE UNDER THE IMF STABILIZATION PROGRAM. IF THE GOZ WERE TO DEFAULT ON ANY PORTION OF NEW LIMITED OFFICIAL USE

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OR EXISTING LONDON CLUB CREDITS AN ACCELERATOR CLAUSE WOULD CAUSE THE ENTIRE OUTSTANDING BALANCE TO FALL DUE IMMEDIATELY, AND THE BANKS WOULD PROBABLY END UP RESCHEDULING.

4. ACCORDING TO CITIBANK THE ADVANTAGES OF THIS TYPE OF AGREEMENT ARE:

-- IT IS MOST LIKELY TO HELP ZAIRE REGAIN ITS CREDIT-STANDING IN INTERNATIONAL CAPITAL MARKETS,

-- THE SHORT-TERM "REVOLVING" ASPECT OF THE LINE OF CREDIT IS MORE LIKELY TO HOLD THE GOZ TO GOOD FINANCIAL BEHAVIOR THAN WOULD A REGULAR 5-YEAR TERM LOAN.

-- THE FACT THAT IMPORTS FINANCED WOULD BE LICENSED BY THE CENTRAL BANK WOULD ENHANCE RESPONSIBLE MANAGEMENT, AND

-- THIS TYPE OF APPROACH WOULD BE MORE "MARKETABLE" TO OTHER BANKS THAN A 5 YEAR TERM LOAN (250 MILLION DOLS REPAYED IN 10 SEMI-ANNUAL INSTALLMENTS).

5. CITIBANK'S FEELING IS THAT IF THE LETTER OF CREDIT APPROACH OUTLINED ABOVE DOESN'T GAIN THE SUPPORT OF THE LONDON AGREEMENT BANKS, THE ONLY ALTERNATIVE WOULD BE A CONVENTIONAL RESCHEDULING OF THE PRINCIPAL DUE THROUGH 1977, I.E. ABOUT 131 MILLION DOLS. CITIBANK BELIEVES THIS WOULD RESULT IN LONG-TERM DAMAGE TO ZAIRE'S ABILITY TO RAISE PRIVATE CAPITAL.

6. IN CONTACTS WITH SOME OF ITS EUROPEAN COUNTERPARTS,

EXIMBANK HAS ENCOUNTERED THE FEELING THAT THE 180 DAY TERM OF THE PROPOSED CREDIT WOULD CREATE AN UNUSUALLY DIFFICULT STRAIN ON ZAIRE'S ABILITY TO AVOID DEFAULT. EUROPEANS ALSO APPEAR CONCERNED THAT SYSTEM OF MULTIPLE LETTERS OF CREDIT MATURING ON VARIOUS DATES WILL POSE HEAVIER ADMIN- LIMITED OFFICIAL USE

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ISTRATIVE BURDEN ON GOZ THAN WOULD SINGLE CREDIT WITH DUE DATES KNOWN FAR IN ADVANCE. EXIMBANK HAS ALSO RECEIVED INDICATION THAT THE IDEA OF A FIVE YEAR TERM LOAN MAY STILL BE A VIABLE OPTION FOR SOME EUROPEANS.

7. IN YOUR TALKS WITH SAMBWA, PLEASE BEAR IN MIND OUR KEEN DESIRE TO AVOID APPEARING AS INTERFERING IN ZAIRE'S NEGOTIATIONS WITH THE BANKS. CHRISTOPHER

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Control Number: n/a
Copy: SINGLE
Sent Date: 04-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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